

Actions Needed to Mitigate Inconsistencies in and Lack of Safeguards over U.S. Salary Support to Afghan Government Employees and Technical Advisors



October 29, 2010

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OFFICE OF THE SPECIAL INSPECTOR GENERAL FOR AFGHANISTAN RECONSTRUCTION

October 29, 2010

The Honorable Hillary Rodham Clinton
Secretary of State

The Honorable Karl W. Eikenberry
U.S. Ambassador to Afghanistan

The Honorable Rajiv Shah
Administrator
U.S. Agency for International Development

Mr. Earl Gast
USAID Mission Director to Afghanistan

This report discusses the results of the Office of the Special Inspector General for Afghanistan Reconstruction's (SIGAR) review of U.S. salary support to Afghan government employees and technical advisors. It includes ten recommendations to the U.S. Ambassador to Afghanistan to improve accountability over U.S. salary support funding and ensure more consistency in the implementation of this assistance.

A summary of this report is on page ii. SIGAR conducted this performance audit under the authority of Public Law No. 110-181 and the Inspector General Act of 1978, as amended. When preparing the final report, we considered comments from U.S. Embassy Kabul. These comments indicated concurrence with our findings and recommendations. A copy of these comments is included in appendix III of this report.

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Assistant Inspector General for Audits
Office of the Special Inspector General
for Afghanistan Reconstruction



SIGAR

Special Inspector General for Afghanistan Reconstruction

SIGAR Audit-11-5

October 2010

Actions Needed to Mitigate Inconsistencies in and Lack of Safeguards over U.S. Salary Support to Afghan Government Employees and Technical Advisors

What SIGAR Reviewed

Since 2002, the United States and other international donors have spent millions of dollars to pay the salaries of thousands of Afghan government employees and technical advisors in an effort to help build the capacity of the Afghan government. This report assesses (1) the extent of donor salary support, (2) the impact of salary support on the long-term capacity and sustainability of the Afghan government, (3) U.S. agencies' implementation of salary support, and (4) the accountability mechanisms safeguarding U.S. funds for salary support. To address these objectives, SIGAR interviewed U.S. Agency for International Development (USAID), U.S. Embassy Kabul, Afghan government, and donor officials. SIGAR also analyzed contracting documents, memoranda, and personnel data and examined hiring and payroll documents and systems. We conducted our work in Washington, D.C., and Kabul, Afghanistan, from January to September 2010 in accordance with generally accepted government auditing standards.

What SIGAR Found

Neither the Afghan government nor donors can account for the total number of Afghan government employees and technical advisors that receive salary support or identify how much they are paid, due in large part to a lack of transparency over that support. In February 2010, the Ministry of Finance estimated that donors were providing \$45 million annually to more than 6,600 employees and advisors; however, this estimate was based on incomplete data. U.S. agencies also lack visibility over salary support because data are not centrally managed and no single office is responsible for collecting salary support data.

The Afghan government relies heavily on donor salary support to fill critical capacity gaps and attract and retain skilled Afghans. However, we found that donors' practices, including paying significantly higher salaries than the Afghan government can sustain and providing salary support outside Afghan planning and budgeting processes, distorts the local labor market and undermines long-term goals of building government capacity and fiscal sustainability. Some Afghan government employees receive donor-funded salary supplements as much as 20 times the amount of their base government salaries. Donor officials stated that they recognize the need to reform salary support to mitigate these effects, but have not yet addressed ways to do so in a coordinated manner.

U.S. agencies—collectively one of the largest providers of salary support—have implemented that support without consistent guidance on how and under what conditions it should be provided. Since 1988, USAID has had a policy discouraging salary supplements to foreign government employees; however, to respond to capacity needs, the policy has been waived at least twice for Afghanistan. USAID's policy does not apply to other U.S. agencies nor does it include salaries paid to technical advisors embedded in Afghan government offices. Furthermore, the Department of State does not have a policy on salary support—either for salary supplements or for technical advisors embedded in government offices. As a result, U.S. agencies' ability to strategically target salary support resources at prioritized needs and goals has been hindered.

As USAID provides more salary support funding through the Afghan government, it will rely on Afghan government processes and systems to hire, promote, and pay salary support recipients. Although USAID has conducted an assessment, a component of internal control, of the Afghan government's financial management capabilities, it has not conducted similar assessments of the human resources and payroll systems that will be used to implement U.S. salary support. Potential weaknesses in disbursing salaries, including incomplete implementation of an electronic payroll system and an inability to detect multiple supplements paid to single recipients, increase the risk of mismanagement, waste, and abuse of U.S. salary support.

What SIGAR Recommends

SIGAR is making ten recommendations to the U.S. Ambassador to Afghanistan to improve accountability and consistency over U.S. salary support. These recommendations address the need to establish guiding principles, key terms, and a standardized pay scale aligned to Afghan government scales; designate a representative to monitor U.S. agencies' salary support and verify that positions funded by U.S. agencies are on the Afghan government's *tashkil*; and conduct a risk assessment of the Afghan government's payroll and human resources systems used to disburse salary support. In commenting on a draft of this report, U.S. Embassy Kabul concurred with the findings and recommendations and outlined actions it intends to take to implement them.

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ACRONYMS

ARTF	Afghanistan Reconstruction Trust Fund
DFID	Department for International Development
IARCSC	Independent Administrative Reform and Civil Service Commission
INL	Bureau for International Narcotics and Law Enforcement Affairs
LOTFA	Law and Order Trust Fund of Afghanistan
MOF	Ministry of Finance
SIGAR	Special Inspector General for Afghanistan Reconstruction
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific, and Cultural Organization
USAID	U.S. Agency for International Development



Actions Needed to Mitigate Inconsistencies in and Lack of Safeguards over U.S. Salary Support to Afghan Government Employees and Technical Advisors

Afghanistan's severe capacity and fiscal deficits have led donors to provide billions of dollars to help pay the salaries of Afghan civil servants, security forces, and teachers since 2002. A core element of the U.S. strategy in Afghanistan is strengthening Afghan governance by enhancing its capacity and reducing corruption. In particular, the United States and other international donors have paid the salaries of thousands of technical advisors that perform governmental functions and supplemented government salaries to attract and retain skilled Afghans to government service. These donor-funded government employees and technical advisors have come to be known as a "second civil service" because of the higher salaries they are paid and the high-ranking positions they hold. Some Afghan officials, including President Karzai, attribute increasing corruption in the Afghan government, in part, to these higher salaries and the lack of controls to prevent waste and abuse of donor salary support funds. The United States is also increasingly concerned about the role foreign assistance may play in fueling corruption in Afghanistan. Secretary of Defense Robert Gates announced in September 2010 that the U.S. Forces – Afghanistan and U.S. Embassy Kabul would put in place new procedures and controls to address this concern.

This report assesses (1) the extent of donor salary support provided to Afghan government employees and technical advisors since 2005, (2) the impact of donor salary support on the long-term capacity and sustainability of the Afghan government, (3) U.S. agencies' implementation of salary support, and (4) the extent to which internal controls and accountability mechanisms are in place to safeguard U.S. funding for salary support. We did not assess U.S. salary support provided through multilateral trust funds or to the Afghan National Security Forces.¹ This report is part of a series of audits by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) to address U.S. efforts to build Afghan capacity for enhancing accountability and preventing corruption.

To accomplish these objectives, we interviewed officials from the U.S. Agency for International Development (USAID) and U.S. Embassy Kabul; other major donors including the World Bank, the United Nations Development Programme (UNDP), and the United Kingdom's Department for International Development (DFID); Afghan institutions implementing and receiving salary support, such as the Ministry of Finance (MOF), the Independent Administrative Reform and Civil Service Commission (IARCSC), and the Office of the President; and nongovernmental organizations implementing U.S. salary support. We collected and analyzed contracting documents and agreements, memoranda, and personnel data. We examined hiring and payroll documents and processes and requested verification of a random sample of salary support recipients through the Afghan government's payroll and human resources systems. We conducted our work in Washington, D.C., and Kabul, Afghanistan, from January

¹ The United States is a major contributor to the Afghanistan Reconstruction Trust Fund (ARTF) and the Law and Order Trust Fund for Afghanistan (LOTFA), both of which provide funds to pay the salaries of Afghan government employees.

to September 2010 in accordance with generally accepted government auditing standards. A discussion of our scope and methodology is included in appendix I.

BACKGROUND

More than twenty years of conflict has left Afghanistan with a largely debilitated government structure. A 2002 preliminary needs assessment found that Afghan government ministries and departments did not have basic materials or equipment and had few experienced or qualified staff.² The assessment also found that government staff had been paid intermittently, if at all, and many senior personnel had either left the country or sought alternative part-time employment. The assessment concluded that there would likely be a major skills gap, especially in key aspects of public administration, such as policy formulation, planning, priority-setting, and budgeting and monitoring, that would require a comprehensive program of recruitment, reorientation, and training.

A central goal of the Afghanistan National Development Strategy, the U.S. Afghanistan and Pakistan Regional Stabilization Strategy, and the U.S. Integrated Civil Military Campaign Plan for Afghanistan is the development of an effective Afghan government that can provide security and services to its people. To do so requires a minimum of administrative capacity, predicated on a well-functioning civil service and public financial management system. Revenue shortfalls and low civil service salaries, however, have made it difficult for the Afghan government to attract and retain skilled professionals. Salary support is intended to enable the Afghan government to function in the short-term, while civil service and other public administrative reforms take root. Since 2002, international donors have provided salary support to attract and retain skilled Afghans to serve in the government or to work as technical advisors to build the capacity of government institutions.³

We define salary support as both salaries paid to technical advisors and salary supplements paid to Afghan government employees. Traditionally, technical advisors guide and mentor host government personnel, but in Afghanistan, technical advisors can also fill a governmental role or function. For the purposes of this audit, we examined the latter type of technical advisor. Technical advisors can be hired directly by an international donor and seconded to an Afghan government office or be hired directly by the Afghan government with funding provided by an international donor. According to USAID acquisition regulations, a salary supplement is a payment that augments a host government employee's base salary, including incentive payments, allowances, overtime premiums, and extra payments incurred during the performance of regular duties or during regular office hours.⁴ Some donors also refer to salary supplements as "top-ups."

The United States has provided salary support to the Afghan government since at least 2005. The principal U.S. agencies that provide salary support to non-security forces personnel in Afghanistan are USAID, the Department of State's Bureau for International Narcotics and Law Enforcement Affairs (INL),

² Asian Development Bank, UNDP, and World Bank, *Afghanistan: A Preliminary Needs Assessment for Recovery and Reconstruction*, January 2002.

³ The World Bank and UNDP also provide salary support directly to the Afghan government's operating budget through ARTF and LOTFA, respectively. The World Bank reported that ARTF provided more than \$1.3 billion to pay the salaries of 250,000 non-uniformed civil servants in all 34 provinces between 2002 and March 2010. UNDP reported that LOTFA provided \$901.3 million to pay for the salaries and allowances of the Afghan National Police between April 2004 and June 2010. We did not evaluate salary support provided through trust funds.

⁴ See USAID Acquisition Regulation 752.231-71.

and U.S. Embassy Kabul's Public Affairs Section.⁵ Programs with a significant salary support component include USAID's Capacity Development Program, Support to the Center of Government, and District Delivery Program; INL's Good Performers Initiative, Counter-Narcotics Advisory Team, Justice Sector Support Program, and the Corrections Systems Support Program; and U.S. Embassy Kabul's Public Affairs Section's support to the Government Media Information Center. Salary support through USAID's Capacity Development Program and Support to the Center of Government ended in December 2009 and March 2010, respectively. Details of the programs are provided in appendix II.

THE FULL EXTENT OF U.S. AND DONOR SALARY SUPPORT IS UNKNOWN

Neither the Afghan government nor international donors can account for the total number of government employees and technical advisors that receive salary support or identify how much recipients are paid due, in large part, to a general lack of transparency over that support. In February 2010, the MOF estimated that donors provided a total of \$45 million in annual salary support to more than 6,600 government employees and technical advisors, but these estimates were based on incomplete data. U.S. Embassy Kabul and USAID decision-makers also lack visibility over the salary support U.S. agencies provide to the Afghan government because data are not centrally managed and no single office has the responsibility to collect data on or review requests for salary support.

Donors Perpetuate a Lack of Transparency by Underreporting Salary Support

For a government to operate efficiently and effectively, it needs to be able to identify who is working for it, their duties and responsibilities, and the amount they are paid. However, according to IARCSC and MOF officials, ministries did not always know which employees received salary supplements from international donors or how many technical advisors were hired to perform regular governmental functions. Donors did not collectively report on which government employees they paid or how many technical advisors they hired to work in government offices until the Afghan government requested salary support data in 2010, eight years after they began providing salary support. To improve transparency over donor salary support and reduce corruption, President Karzai issued a presidential decree in January 2010 establishing a commission to collect and analyze information on salaries paid by donors to Afghans working in the government, including regular civil servants, technical advisors, and contracted staff. In February 2010, the Afghan government asked donors to provide the names, positions, and salary amounts for salary support recipients to the MOF.

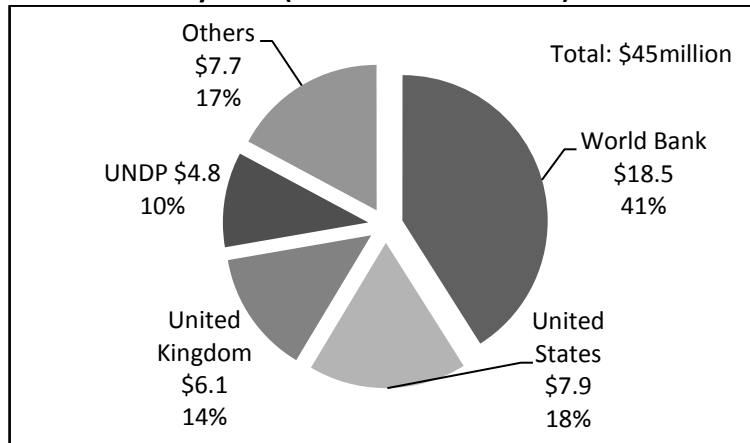
Based on the data donors provided in response to this request, the MOF estimated in February 2010, that 17 donors were providing a total of \$45 million in annual salary support to about 6,600 government employees and technical advisors.⁶ The four largest donors—the World Bank, United States, United Kingdom, and the UNDP—account for 83 percent of reported donor funding for salary support.⁷ Figure 1 shows the amount of funding in salary support that the MOF reported receiving from each donor in February 2010.

⁵ The Department of Defense also provides funding to pay the salaries of the Afghan National Security Forces, including the Afghan National Army and Afghan National Police, which we do not assess in this report. SIGAR is assessing accountability of the Afghan National Police's personnel management system, including salary payments, in a separate audit.

⁶ The MOF also estimated that approximately 8,000 government employees and technical advisors had received some form of salary support in the past.

⁷ MOF estimates included salary support provided through the trust funds, but excluded salary support to Afghan security forces.

Figure 1: Salary Support Funding by Donor, as Reported to the MOF in February 2010 (U.S. dollars in millions)

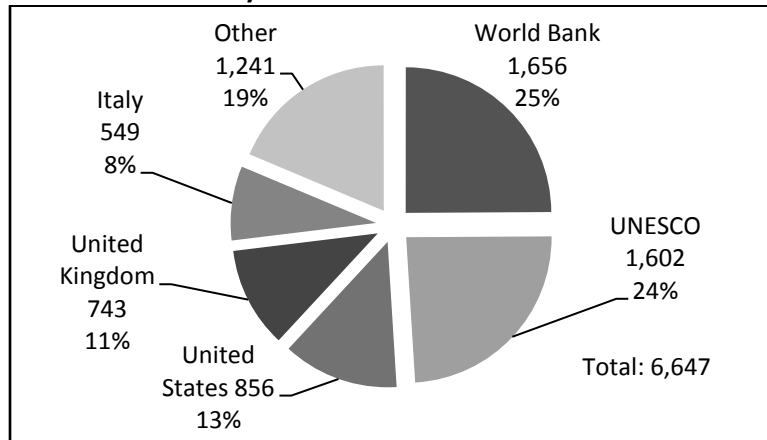


Source: MOF analysis of data provided by international donors.

Note: Other donors include the Asian Development Bank; Denmark; United Nations Educational, Scientific, and Cultural Organization; and the World Health Organization.

The World Bank and the United Nations Educational, Scientific, and Cultural Organization (UNESCO) provided salary support for 49 percent of recipients, according to data provided to the MOF. Figure 2 shows the number of recipients reported in February 2010, according to MOF estimates of donor salary support data.

Figure 2: Recipients of Salary Support by Donor, as Reported to the MOF in February 2010



Source: MOF analysis of data provided by international donors.

Note: Other donors include UNDP, Food and Agricultural Organization, and Denmark.

The MOF estimates are based on incomplete information, however, because some donors underreported the extent of their salary support. A precondition for reliable and relevant information is the prompt recording and proper classification of data. An MOF official responsible for collecting salary support data indicated that some donors' submissions were missing information and some donors did not report at all. The official stated that UNDP, for example, did not report technical advisors that are

seconded to Afghan government offices. As a result, UNDP underreported its salary support by two-thirds, or almost 1,000 recipients. We also found that USAID did not report salary support for technical advisors seconded to the High Office of Oversight. Additionally, donors did not always report salary supplements to government employees, but focused primarily on reporting salaries paid to technical advisors. One donor official stated that they only reported the salaries of technical advisors, although they also paid salary supplements to employees in at least two Afghan government offices. A World Bank official considered salary supplements to be the least transparent type of salary support. According to U.S. and donor officials, variations in donor definitions of salary supplements and technical advisors and unclear reporting instructions led to confusion over the type of information they were expected to report. A precondition for reliable and relevant information is the prompt recording and proper classification of data.

U.S. Embassy Kabul and USAID DO Not Have Full Visibility over Salary Support

Neither U.S. Embassy Kabul nor USAID can fully account for the salary support U.S. agencies have paid to Afghan government employees and technical advisors since 2005 because salary support information is not centrally managed and no individual or office has been given that responsibility. The ability of managers to make appropriate decisions is affected by the quality of the information available. Information that is properly identified, collected, and communicated helps ensure reliable information is available to managers and decision-makers to fulfill accountability obligations.

Although the United States has provided salary support since at least 2005, USAID and U.S. Embassy Kabul did not begin collecting information on that support until 2008 and 2010, respectively. When USAID conducted a comprehensive review of its programs to determine the extent of its salary support in 2008, it took almost one year for USAID to compile a list of recipients and salary payments. According to one official, the process was labor intensive because salary support data was not centrally managed by the USAID Mission in Afghanistan. Salary support was also typically embedded within much larger capacity-building programs, which further complicated the collection process. In addition, a USAID official stated that it was difficult to distinguish technical advisors that perform government functions from “traditional” technical advisors that guide and mentor Afghan government employees because many of the latter type take on government responsibilities due to the lack of government capacity. U.S. Embassy Kabul began collecting salary support data in early 2010 after the MOF requested that donors provide this information. U.S. Embassy Kabul and USAID officials reported that no individual or office is responsible for reviewing or collecting salary support information or requests.

By not collecting timely data, U.S. Embassy Kabul and USAID Mission decision-makers do not have full visibility over payments made to salary support recipients. While taking inventory of its salary support in 2008, after the Afghan government requested a continuation of salary support, USAID discovered that it was funding salary supplements to Afghan government employees, including policy-makers such as ministers and senior presidential advisors, in violation of its own policy. USAID policy guidance discourages supplementing a host government employee’s salary, but allows exceptions if approved by the appropriate Assistant Administrator.⁸ The guidance prohibits supplementing policy-making officials’ salaries under any circumstances. At some point between 2005 and 2008, the recipients in the Office of the President became government employees. After discovering these violations, successive USAID Administrators twice waived the policy to allow for continued salary support to the Office of the President.⁹ A lack of strategic visibility over salary support can also lead to U.S. agencies implementing

⁸ See Mandatory Reference in USAID Automated Directives System 201.3.11.10, “Policy Guidance on Criteria for Payment of Salary Supplements for Host Government Employees” [Cable 88 State 119780, April 1988].

⁹ The current policy waiver expires in March 2011.

salary support independent from other U.S. government efforts. A U.S. official working with the Afghan National Security Council said that he did not know that USAID was funding some of its employees through The Asia Foundation until a contractor providing technical assistance raised concerns over its influence in the National Security Council.

Based on our analysis of salary support data that U.S. Embassy Kabul collected in February 2010, USAID, INL, and U.S. Embassy Kabul's Public Affairs Section were providing more than \$1 million in monthly salary payments to 900 Afghan government employees and technical advisors in 16 ministries and government offices. USAID's 2 largest programs with salary support components provided approximately \$19 million from January 2007 to January 2010. USAID provided the vast majority of U.S. salary support in terms of funding and recipients, accounting for more than 80 percent in both funding and number of recipients. INL accounted for 8 percent of the funding and 10 percent of recipients, while the Public Affairs Section had approximately 6 percent of both funding and recipients. Table 1 provides a list of the Afghan government institutions that received U.S. salary support and the number of recipients, as reported to U.S. Embassy Kabul in February 2010. The Ministry of Education and the Office of the President were the two largest recipient institutions of U.S. salary support.

Table 1: Number of U.S. Salary Support Recipients, by Afghan Government Institution, as Reported in February 2010

Afghan Government Institution	Number of Recipients of U.S. Salary Support
Ministry of Education	413
Office of the President	103
Ministry of Counter Narcotics	95
Ministry of Public Health	72
Ministry of Higher Education	69
Government Media Information Center	51
Ministry of Public Works	25
Ministry of Commerce and Industry	20
Ministry of Finance	18
Ministry of Energy and Water	10
Da Afghanistan Bank ^a	7
Parliament	7
Ministry of Mines	1
Others ^b	9
Total	900

Source: SIGAR analysis of USAID, INL, and Public Affairs Section data.

Notes:

^a Da Afghanistan Bank is Afghanistan's Central Bank.

^b Other recipient Afghan government institutions include the Joint Coordination Monitoring Board, the Inter-ministerial Commission on Energy, and the Kabul Institute of Health.

THE AFGHAN GOVERNMENT RELIES ON DONOR SALARY SUPPORT BUT DONOR PRACTICES UNDERMINE LONG-TERM SUSTAINABILITY AND CAPACITY DEVELOPMENT

The Afghan government relies heavily on donor-funded salary support to fill critical capacity gaps and attract and retain skilled Afghans. Indeed, many salary support recipients hold high-ranking positions and perform critical government functions. Donors' practices, including paying higher salaries than the Afghan government can sustain and providing salary support outside Afghan government planning and budgeting processes, can undermine Afghan and international goals of building government capacity and fiscal sustainability in the long term. Donors have not collectively addressed these problems, although donor officials recognize the need for reforms.

The Afghan Government Relies Heavily on Donor Salary Support

Severe weaknesses in ministerial capacity and the lack of domestic revenue have left the Afghan government heavily reliant on donor salary support to attract and retain skilled and qualified Afghans. According to a 2009 USAID-funded assessment of corruption in Afghanistan, the Afghan government recognizes that wages paid to most civil servants, particularly those in provinces and districts, are barely sufficient to provide for a family much above a poverty level.¹⁰ In 2009, USAID raised concerns about the risk of not providing the higher salaries needed to attract personnel to high-ranking government positions, suggesting that the Afghan government would have to fill key positions with personnel who lack necessary skills and experience.

We found that international donors funded the majority of staff in several government offices; in some cases, the entire staff was comprised of salary support recipients. For example, the salaries of all 71 employees at the Government Media Information Center, which is responsible for strategic communications between Afghanistan and the international community, were funded by the United States, United Kingdom, Canada, Netherlands, and the North Atlantic Treaty Organization. Similarly, the Ministry of Public Health's Grants and Contracts Management Unit, which manages donor-funded activities, is staffed entirely with contracted Afghan employees funded by international donors. None are direct employees of the ministry hired under the civil service law. Further, the MOF's Aid Management Directorate has been able to fill only 55 percent of its authorized positions, and these with donor-funded technical advisors.

In addition, salary support recipients often hold high-ranking positions or perform critical governmental functions, including policy-making, line management, and fiduciary roles. Salary support recipients have included ministers, presidential advisors, directors general, and directors. The number of recipients and the level of their responsibilities led one World Bank official to describe the Afghan government as being run by a tier of people paid by international donors, leaving regular civil servants largely marginalized. Similarly, a DFID official noted that donor-funded technical advisors embedded in government offices have become the core technocrats of the Afghan government. For example, although USAID-funded technical advisors constitute 10 percent of High Office of Oversight staff, they serve as heads of departments, such as the Departments of Strategy and Planning, Prevention, Oversight, and Asset Registration.¹¹

The Afghan government is also largely dependent on donor salary support to provide critical capabilities. The MOF, which is widely considered to be one of the most capable ministries, is largely staffed by UNDP and World Bank-funded technical advisors. Sixty-six percent, or 70 out of 105, of its Budget Department employees are UNDP-funded technical advisors, according to a senior Budget Department official. A 2007 USAID assessment of the MOF found that technical advisors played a very important role in the day-to-day operations of the ministry. A DFID official attributed the positive results of its MOF financial risk assessment to the high level of donor-funded technical assistance, but warned that the MOF's capacity would be severely weakened if donors suspended their support.

¹⁰ USAID, *Assessment of Corruption in Afghanistan*, 2009.

¹¹ The High Office of Oversight is the Afghan government office responsible for coordinating and supervising the implementation of Afghanistan's National Anti-Corruption Strategy and administrative and procedural reform.

Donors Pay Employees and Advisors at a Significantly Higher Rate than the Afghan Government

Donors do not have a standardized pay scale to guide the amount of salary support they provide to Afghan government employees and technical advisors, and donors pay significantly higher salaries to these recipients than the Afghan government can sustain on its own. Although salary support is intended to fill critical gaps in government capacity in the short term, such practices can undermine efforts to build the capacity of the Afghan government in the long term.

Donors pay significantly higher salaries to recipient Afghan government employees and technical advisors than the Afghan government pays to its civil servants and political appointees. According to an MOF official, a civil servant working in the MOF, for example, can be paid one-tenth the salary that a UNDP technical advisor working in the same office receives. As shown in table 2, all of the donor pay scales we examined exceeded the pay scales of the Afghan government. Even Afghan government employees paid under the Priority Restructuring and Reform (PRR) Super Scale are paid significantly less than donor-funded recipients. The Afghan government uses PRR Super Scale to pay higher salaries to higher-ranking government employees, such as ministers, deputy ministers, and directors general, and employees who have specialized skills, such as doctors.

Table 2: Afghan Government and Donor Monthly Pay Scales in U.S. dollars, as of July 2010

Pay Scale	Pay range (per month)
Civil Service Scale (pay and grade reform)	\$100 - \$650
PRR Super Scale ^a	\$400 - \$1,500
Management Capacity Program ^b	\$800 - \$7,572
UNDP (UNDP-hired and paid technical advisor) (UNDP employee)	\$438 - \$2,518
UNDP (government-contracted technical advisor funded by UNDP)	\$832 - \$6,500
USAID Foreign Service National	\$503 - \$4,023
U.S. Embassy Kabul, Public Affairs Section ^c	\$350 - \$5,000
INL ^d	\$200 - \$3,880

Sources: SIGAR analysis of IARCSC; USAID; UNDP; U.S. Embassy Kabul, Public Affairs Section; and, INL data.

Notes:

^a The Afghan government uses PRR Super Scale for high-ranking government employees and employees with specialized skills.

^b The Management Capacity Program, funded by the World Bank and implemented by the Afghan government, recruits senior and upper mid-managers in financial management, human resources, policy and regulatory design, general administration, and project management on a higher pay scale.

^c The pay scale we used for U.S. Embassy Kabul's Public Affairs Section was based on its salary support to the Government Media Information Center.

^d We used the pay scale INL used for the Good Performers Initiative.

Donors do not have a standardized pay scale for salaries paid to technical advisors or salary supplements paid to Afghan government employees, which can lead to significant differences in salary levels that donors paid to Afghan recipients. Table 2 shows that the highest salaries between donor pay ranges differed by almost \$5,000 per month. Without a standardized pay scale, competition among donors for a limited pool of skilled, qualified Afghans to implement donor programs can drive up salaries and create distortions in the local labor market. To address this issue, international donors and the Afghan government agreed at the Kabul International Conference on Afghanistan, in July 2010, to seek an understanding over the next 6 months on a harmonized pay scale for donor-funded salaries of persons working within the Afghan government. It is unclear whether the harmonized pay scale will include salary supplements.

Our analysis of U.S. salary support data also shows that salary supplements paid to Afghan government employees can be as much as 20 times higher than civil service salaries.¹² For example, employees in the Office of the President were paid monthly supplements between \$1,500 and \$4,300, in addition to their monthly government salaries of \$200. In another example, a high-ranking official received a

¹² We were not able to compare U.S. and other donors' salary supplements paid to Afghan government employees because we did not have access to other donors' salary support data.

monthly salary supplement of \$5,000 from USAID in addition to his monthly government salary of \$2,000 and a monthly \$1,400 hospitality allowance. According to an MOF official, donors pay salary supplements that range from \$20 to \$9,000 per month.

Officials from the four major salary support providers and the Afghan government offices we met with unanimously acknowledged that the Afghan government cannot afford the higher salaries donors pay, given the government's fiscal outlook and revenue prospects. The ability of a host government to sustain the salary supplements that USAID pays to government employees is an important principle underlying its policy on salary supplements.¹³ USAID policy guidance requires supplements be paid only if the payments made are in accordance with local standards and are limited to amounts that the host government could be expected to meet from its own resources within a reasonable time. According to a November 2009 USAID memo, an estimated 82 percent of Afghan government expenditures are paid by international donors, and continuing government revenue shortfalls could further weaken the Afghan government's capacity to absorb many high-cost salaries. As a result, UNDP and USAID officials said that the Afghan government would likely continue to need salary support in the future.

Salary support can also undermine the long-term development of Afghan government capacity by drawing skilled, qualified Afghans away from the civil service. The civil service scale is too low to compete with the higher salaries donors pay, further reducing the government's ability to attract and retain skilled Afghan professionals to government service. According to U.S. Embassy Kabul and DFID officials, donors have inflated the salaries of skilled Afghans, and the government is priced out of the market. USAID has raised concerns that paying higher salaries can weaken many of the institutions the Afghan government is trying to build and donors are seeking to support. A World Bank official noted that, even though the World Bank has a policy not to recruit Afghans that already hold government positions, it nevertheless receives many applications from government employees because of the higher salaries it pays. The Afghan government has undertaken several public administrative and civil service reforms that increase civil service salaries, but these salaries (even at the top of the range) are inadequate to attract personnel with needed skills or compete with donors' salaries.

¹³ The USAID Administrator approved the USAID Mission's deviation from this policy in 2009 and 2010 so that the Mission could provide salary support to employees in the Office of the President. USAID's policy does not apply to other donors or other U.S. government agencies.

Afghan and donor officials are concerned that donor salary support may be replacing, rather than building, the capacity of the Afghan government. Salary support undermines long-term capacity development if recipients leave their positions after donors stop paying their higher salaries. Because technical advisors' salaries are often tied to specific programs, their employment ends when donors stop providing salary support. For example, 6 of 10 technical advisors in the High Office of Oversight who were serving as acting heads of departments left soon after USAID announced it would stop funding salary support to the office in March 2010. In Afghanistan, technical advisors often perform governmental functions rather than guide and mentor government employees; therefore, when they leave their positions, the Afghan government is left without the skill sets on which they relied. The disparity between donor and Afghan government salaries can also undermine capacity development if recipients leave their positions to seek higher donor salaries. According to U.S. Embassy Kabul and DFID officials, skilled Afghans are in high demand and have the ability to move easily between donor programs. As mentioned earlier, donor competition often leads donors to offer higher salaries to recruit Afghans to implement their programs. The Afghan government has tried to mitigate the potential loss of government employees by finding ways to pay salaries that are higher than the civil service scale after donor salary support ends. For example, senior officials in President Karzai's office stated that the recipients who were no longer receiving salary support from USAID would be paid supplements from the government budget at about half of what they received from USAID through The Asia Foundation. Officials remained concerned that these former recipients will leave their government positions.

Donors Often Fund Positions outside the Afghan Government's Planning and Budgeting Processes

Donors, particularly the United States, have provided salary support directly to government employees and technical advisors without going through the Afghan government, thus bypassing the government's planning and budgeting processes. Until recently, donors may have been reluctant to provide funding through Afghan government budget channels due to significant concerns over the government's financial management capacity and widespread corruption, according to the World Bank's 2009 *Vulnerability to Corruption Assessment*.¹⁴ For example, before 2010, almost all U.S. salary support was provided outside the Afghan budget.

Providing salary support outside the Afghan government can hinder the government's ability to plan for the fiscal resources needed to assume responsibility for paying recipients after donor salary support ends. The MOF is responsible for preparing, managing, and executing the national budget, but it does not have access to or visibility over off-budget expenditures, such as donor-funded salary support, according to a senior MOF Treasury Department official. As a result, the MOF is not able to oversee what would otherwise be a government expenditure, exert control over its employees' salaries, or ensure fiscal discipline based on what it can sustain in the future. Providing salary support outside the Afghan government also contributes to a lack of transparency over donor salary support.

The United States and other donors have started taking steps to provide more funding for salary support through the Afghan government. According to UNDP and IARCS officials, UNDP will no longer directly hire technical advisors to work in Afghan government ministries but will instead provide funding to the Afghan government to contract with technical advisors themselves. UNDP officials stated that this new mechanism would help address the disparity in UNDP and Afghan government salaries by funding lower salaries and supporting positions that use IARCS-approved pay scales. When we compared the pay scales used under both UNDP mechanisms, however, we found that the monthly salary for a UNDP-

¹⁴ World Bank, *Fighting Corruption in Afghanistan: Summaries of Vulnerabilities to Corruption Assessments*, May 2009.

funded, Afghan government-hired technical advisor was almost \$4,000 higher than a UNDP-hired technical advisor seconded to the Afghan government.¹⁵ USAID also has moved to providing more salary support through the Afghan government to improve transparency and long-term fiscal sustainability and capacity development. USAID plans to transfer an estimated \$36 million to the MOF for salary support to priority civil servant positions in key districts in the District Delivery Program.¹⁶ Moreover, USAID stopped providing salary support to the Office of the President through The Asia Foundation and is now providing it through the MOF.

In addition, many donor-funded positions are not authorized in the Afghan government's *tashkil*, a Dari word meaning "organization," which is a document that establishes a ministry's staffing levels. For example, only 1 of 71 donor-funded positions at the Government Media Information Center is on the *tashkil*. The *tashkil* is an essential component of the Afghan government's budgetary and payroll processes. It not only drives the "wages and salaries" portion of the national budget, it is the basis on which the government executes payroll and recruits staff.¹⁷ Based on our discussions with officials from the four largest providers of salary support, we found that three of them fund positions that are not on the *tashkil*. Only the World Bank exclusively funds *tashkil* positions. Almost all of DFID's salary support is for technical advisors in non-*tashkil* positions. UNDP also funds positions that are not on the *tashkil*. The United States funds both *tashkil* and non-*tashkil* positions. By funding positions that are not authorized on the *tashkil*, donors may be paying for positions that the Afghan government does not need or cannot afford in the long term, putting salary support at greater risk for waste.

We found that U.S. agencies did not always consult the *tashkil* in determining positions that would receive salary support. A U.S. official noted that having a copy of the *tashkil* is necessary to determine if donor-funded positions support a government office's mission or strategic needs, but he was not able to officially obtain a copy of the *tashkil* for the Afghan government institution with which he was working. A USAID official also noted that funding *tashkil* positions helps ensure employees are actually filling those positions. In March 2010, the USAID Mission to Afghanistan announced that USAID would only fund positions authorized on the *tashkil*. In April 2010, however, we found that USAID had not requested a copy of the *tashkil* to verify if positions they planned to fund in the Office of the President were in fact on the *tashkil*. A USAID official also observed that discrepancies between ministry *tashkils* in Kabul and in district offices made it difficult to determine which authorized positions were critical and needed to be filled, which complicated implementation of the District Delivery Program.

Even though salary support recipients typically perform government functions, we found that the Afghan government did not always transfer donor-funded positions onto the *tashkil*, thereby making them part of the government structure or civil service. For example, none of the more than 490 recipients working at the Ministry of Education funded by USAID's Capacity Development Program were

¹⁵ We compared the high end of the pay scales used for the two types of UNDP technical advisors (see table 2).

¹⁶ The District Delivery Program is an Afghan-led initiative to enable the Afghan government to deliver basic government services in targeted districts throughout Afghanistan. The \$40 million program provides funding to cover operational expenses of district governments and salary support to priority civil servant positions in key districts. Salary support will pay for hardship allowances and a portion of salaries for positions that are not receiving pay and grade reform salary and nine positions at the Independent Directorate for Local Governance. Provincial departments and district offices receive their *tashkils* from their respective ministries.

¹⁷ Funding allocated to wages and salaries makes up over three-quarters of the Afghan government's operating budget and is expected to increase in Solar Year 1389 (March 21, 2010 - March 20, 2011) due to growth in the security forces, educators, and implementation of pay and grade reforms in the civil service.

authorized in the *tashkil*.¹⁸ The implementing partner of this program, Deloitte, reported that the IARCSC denied the addition of the positions to the Ministry of Education *tashkil* when USAID stopped funding the program's salary support in December 2009, despite an understanding that the positions would be transferred. A USAID official indicated that the IARCSC could not justify adding the positions based on their job descriptions, the already large number of positions on the ministry's *tashkil*, and the higher salaries that recipients earned.¹⁹ As a result, all of the Deloitte-funded recipients were terminated. The Deloitte official stated that the Ministry of Education would likely lose most, if not all, of the capacity it had gained through the program as a result.

The Afghan government also had little incentive to transfer some donor-funded positions onto the *tashkil* as long as donors continue to support them. For example, officials from two of the largest salary support donors stated that an assessment of salary support for one government office revealed that less than half (30 of 70) of the positions funded were necessary to the functioning of the office. However, the Afghan government had little incentive to reduce the number of positions as long as the donor continued to fund them. He also noted that when it became clear that, contrary to expectations, the positions were not going to be transferred to the *tashkil*, the donor terminated its salary support. In a 2006 memo to USAID, The Asia Foundation requested additional salary support for the presidential chief of staff's office because some critical positions had not been funded in the national budget, and therefore no Afghan government funds could be allocated for their salaries. Positions had not been made part of the national budget because they were already funded by external sources.

Donor Coordination Has Been Limited

Officials from all the major salary support donors recognized the negative impact such support may have on long-term fiscal sustainability and capacity development and the need to reform their salary support practices. However, donors have not collectively addressed these issues in a coordinated way or established principles to guide the provision of salary support to facilitate Afghan ownership in the long-term. USAID policy guidance on salary supplements recognizes the need for coordination among donors to avoid duplicative payments for the same project, to moderate competition to attract the limited capable persons, and to arrive at generally comparable levels of supplementary compensation in cases where salary supplements are necessary. According to DFID and World Bank officials, coordination among donors has generally been focused on programs or sectors and has not specifically sought to deconflict salary support arrangements. Officials from USAID, UNDP, and the World Bank agreed that reforms were not possible without the agreement or involvement of major donors, particularly the United States since it is the largest provider of bilateral salary support in Afghanistan. USAID officials stated that donors started coordinating on salary support issues leading up to the July 2010 Kabul International Conference on Afghanistan.

¹⁸ The Capacity Development Program, USAID's largest program that provided salary support (both in terms of salary payments and number of recipients), was first implemented by Bearing Point; however, Deloitte took over the contract after Bearing Point declared bankruptcy in 2009. For the purposes of the report, we refer to Deloitte as the implementing partner, though some of the statements may also apply to Bearing Point.

¹⁹ Salary payments ranged from roughly \$200 per month for a provincial protection advisor (i.e., security personnel) to more than \$4,000 per month for a national program monitoring advisor.

U.S. SALARY SUPPORT HAS BEEN AD HOC AND INCONSISTENTLY APPLIED ACROSS AGENCIES

U.S. agencies, collectively one of the largest providers of donor-funded salary support, have largely implemented that support without consistent guidance on how and under what conditions it should be provided. Since 1988, USAID has had a policy discouraging salary supplements paid to host government employees; however, the policy has been waived at least twice for Afghanistan so the Mission could respond to capacity needs. USAID's 1988 policy does not apply to other U.S. agencies nor does it include salaries paid to technical advisors embedded in government offices. The State Department does not have a policy on salary support—either for salary supplements or for technical advisors embedded in host government offices. As a result, U.S. agencies' ability to strategically target their salary support resources at prioritized needs and goals has been hindered.

We found that some U.S. salary support recipients did not always perform critical governmental functions even though salary support was intended to fill gaps in government capacity. Our review of reported U.S. salary support data shows that U.S. agencies funded 265 gardeners, cooks, cleaners, drivers, security personnel, and dorm mothers (30 percent of total U.S. salary support recipients). USAID stopped paying the salary support for more than 240 of these positions by March 2010, after we began our audit work. Furthermore, a USAID official stated that the Capacity Development Program, USAID's largest program with a salary support component, did not strategically place its more than 490 salary support recipients in the Ministry of Education according to the Ministry's needs or program's goals. A 2008 USAID Inspector General's report on the program further noted that this salary support may not have strengthened the capacity of the Afghan government.²⁰

In addition, although salary support was generally associated with positions, some support was tied to specific individuals, particularly political appointees, according to a USAID official. Funding people rather than positions, however, does not necessarily build the long-term capacity of government institutions. Some of these recipients took their salary support with them when changing positions, according to one U.S. official. In our review of USAID and The Asia Foundation documents, we found one senior official in President Karzai's office who kept his \$5,000 monthly supplement when he left his position to assume a senior position at a ministry that was not part of the USAID program.

U.S. salary support has sometimes stemmed from ad hoc requests from U.S. Embassy Kabul, USAID Mission, and the Afghan government. For example, the USAID Inspector General reported in 2008 that salary support was added to the Capacity Development Program after U.S. Embassy Kabul requested that USAID pay the salaries of Ministry of Education employees for 2 years. The report questioned the appropriateness of funding these salaries because they did not appear to contribute directly to the program's objectives. We found that there was no specific line item associated with salary support in USAID contracting documents, and a USAID official said the contractor likely received direction from USAID to begin paying these salaries. In addition, two USAID officials indicated that salary support was sometimes awarded to the government ministries that were the most persistent in their requests or exerted the most pressure. Moreover, U.S. officials stated that Afghan government offices sometimes solicit salary support for its employees from multiple donors or U.S. agencies. For example, according to a USAID official, the Independent Directorate for Local Governance requested salary support from USAID in early 2010 after the United Kingdom did not renew its salary support. The Independent Directorate for Local Governance subsequently sought assistance from U.S. Embassy Kabul, which approached USAID for salary support to prevent the possible departure of high-ranking personnel. USAID will provide salary support to nine Independent Directorate for Local Governance positions for 1

²⁰ USAID Office of Inspector General, *Audit of USAID/Afghanistan's Capacity Development Program* (Audit Report No. 5-306-08-012-P) issued September 30, 2008.

year through the District Delivery Program. A USAID official indicated that it was difficult to withstand pressure from other agencies or the Afghan government without strategic guidance or a focal point for such requests.

U.S. agencies have not consistently implemented salary support, especially in terms of pay scales and amounts. For example, USAID, INL, and U.S. Embassy Kabul's Public Affairs Section used different pay scales that were developed independently. An INL official stated that INL had developed a separate pay scale for support to the Good Performers Initiative in the Ministry of Counter-Narcotics. The Government Media Information Center also has its own pay scale. As a result, U.S. agencies provide different levels of support to recipients in similar positions. For example, a special advisor in the presidential chief of staff's office received an \$800 monthly supplement, while a special advisor to the National Security Council received a \$4,000 monthly supplement. Also, a spokesman in one government office received a \$4,600 monthly supplement, while a spokesman in another ministry received a \$1,800 monthly supplement.

U.S. agencies have pursued increasingly divergent approaches to salary support. For example, in November 2009, the USAID Mission issued a moratorium on new requests for salary support, proposals that include salary support, and extensions of ongoing salary support mechanisms. Conversely, U.S. Embassy Kabul offices such as Rule of Law and Interagency Provincial Affairs have requested funding to provide salary support for new recipients such as the judges on the Anti-Corruption Tribunal. In addition, U.S. Embassy Kabul and USAID established the District Delivery Program, which has a significant salary support component, after USAID issued its moratorium. Furthermore, USAID is providing funding for salary support through the MOF to pay salary supplements for employees in the Office of the President and the High Office of Oversight, as well as ministries participating in the District Delivery Program. USAID is providing funding through the MOF because of its responsibility for managing government expenditures and dispersing government payroll. U.S. Embassy Kabul's Public Affairs Section is providing salary support directly to the Government Media Information Center, which will be responsible for paying recipients' salaries since it has its own payroll functions, according to a U.S. mentor.

USAID identified and has taken significant steps to address problems associated with its ad hoc approach to salary support. For example, the USAID Mission issued its November 2009 moratorium after recognizing the problems created by its ad hoc approach. Also, USAID identified a lack of sufficient oversight for salary support provided through implementing partners, but said they would have more oversight and control over salary support to the Office of the President funded through the Afghan government. As such, USAID worked with the MOF and IARCSC, with input from recipient offices, to determine which positions in the Office of the President and the High Office of Oversight would receive salary supplements based on agreed upon criteria. For example, positions had to contribute to inter-ministerial coordination on substantive policy issues, be previously funded by USAID, not be highly politicized, and be below a certain rank. In applying these criteria, USAID and the MOF were able to reduce the number of recipients from more than 200 requested positions to 57. In addition, the memorandum of understanding governing this support requires positions be on the *tashkil*, staffing plans to facilitate the transition from donor-funded to Afghan-funded supplements be finalized, and verification of recipients' performance be documented. USAID also agreed not to fund any ministers or deputy ministers through this mechanism.

THE AFGHAN GOVERNMENT’S HUMAN RESOURCES AND PAYROLL SYSTEMS HAVE KEY WEAKNESSES

As USAID provides more funding through the Afghan government—in accordance with the U.S. strategy for Afghanistan—it will rely on Afghan government processes and systems to implement U.S. salary support, particularly in hiring, promoting, and paying salary support recipients. Accountability over U.S. assistance depends on effective internal controls in the financial management and implementation of that assistance.²¹ USAID has conducted an assessment, a component of internal control, of the Afghan government’s financial management systems, but has not conducted similar assessments of the human resources and payroll systems that the Afghan government will use to implement U.S. salary support. We found several potential weaknesses in disbursing salaries that could pose a risk to the management and use of U.S. salary support, including incomplete implementation of an electronic payroll system and an inability to detect multiple supplements paid to recipients. Donors also have identified weaknesses in recruiting, hiring, and managing government employees.

USAID Primarily Focused on Financial Accountability but Has Not Assessed the Afghan Government’s Human Resources or Payroll Systems

USAID has primarily focused on ensuring financial accountability over U.S. salary support funds, but it has not fully assessed the processes used in hiring, managing, and paying salary support recipients to determine if the necessary internal controls are in place to safeguard U.S. salary support from mismanagement, waste, or misuse. According to a USAID official, USAID is able to provide salary support through the Afghan government because the MOF’s financial management capabilities were found to be adequate in two assessments conducted in 2007 and 2009.²² In conducting the assessments, USAID used a standardized checklist, based principally on qualitative observation rather than quantitative testing, to determine if various components of the MOF’s financial procedures were satisfactory or unsatisfactory. The assessments found that the MOF had adequate financial management capacity to effectively and efficiently record, account for, and report on funding provided directly to the Afghan government. USAID has established other financial accountability measures including stipulations that the Afghan government maintain accounting books, records, and other evidence with adequate documentation, including timesheets, to support the payment of salaries and supplements for its salary support for the Office of the President and through the District Delivery Program. The Afghan government also has to provide USAID with information access rights to the special accounts established for disbursing salary support and allow quarterly financial reviews and annual audits.

²¹ We did not conduct a comprehensive assessment of the internal controls in the Afghan government’s human resources and payroll systems. We note, however, that effective internal controls provide reasonable assurances that risks are addressed, applicable laws and regulations are complied with, accountability obligations are fulfilled, and resources are safeguarded against loss and misuse. Internal controls call for risk assessments, policies and procedures to address risk and achieve objectives, information and communication, and monitoring performance.

²² USAID’s 2009 assessment also evaluated Da Afghanistan Bank (central bank) and the Control and Audit Office. The assessment found that Da Afghanistan Bank had the capacity and capability to provide quality services required of a modern central bank but the Control and Audit Office had limited capacity to conduct audits of donor-funded projects. The assessment said USAID’s audit requirements for funds to be audited by approved audit firms and USAID’s financial review and oversight mitigated the Control and Audit Office’s limited capacity. The MOF and Da Afghanistan Bank are two central players in managing donor funding for salary support. USAID transfers funds to Da Afghanistan Bank to be held in a special account, and the MOF authorizes the release of funding from the special account to pay salary support.

USAID has not fully assessed the financial systems used to implement salary support because neither of its assessments of the MOF evaluated the Afghan government's payroll processes and procedures that USAID would be relying on to disburse payments to salary support recipients. According to USAID, the Afghan government's payroll system was not included in the assessments because USAID had not envisioned further salary support would be provided. A component of internal control, risk assessment is the process of identifying and analyzing relevant risks to the achievement of an agency's objectives. Identifying risks, or weaknesses, is a critical step in determining the appropriate internal control activities needed to mitigate those weaknesses. Internal control activities include a range of policies and procedures as diverse as authorization and approval procedures, segregation of duties, verification and reconciliation, and controls over access to resources and records.

Similarly, USAID has not assessed the recruiting and hiring processes that the Afghan government will use to implement salary support to determine if adequate controls exist to provide reasonable assurance that U.S. salary support is not abused or wasted. According to one USAID official, internal controls used in implementing donor assistance are different from and likely more difficult to manage than financial internal controls. Line ministries are responsible for such internal controls as verifying the identities of government employees, confirming that positions they fill are on the *tashkil* and that employees do not hold multiple *tashkil* positions, certifying time and attendance, and maintaining signed timesheets. According to a USAID financial management official, accountability of the line ministries in implementing donor assistance is a bigger concern than the MOF's financial accountability functions, which USAID already determined were adequate.

The Afghan Government Has Key Weaknesses in its Human Resources and Payroll Systems

U.S. strategy in Afghanistan calls for building Afghan institutional capacity by increasing direct assistance through Afghan government mechanisms and establishes the goal of providing 40 percent of U.S. assistance through Afghan entities by December 2010.²³ As USAID provides more funding through the Afghan government, it will be relying on Afghan government processes and systems to implement U.S. salary support, particularly in hiring, promoting, and paying salary support recipients. Accountability over U.S. assistance depends on effective internal controls in the financial management and implementation of that assistance. Although USAID waived its policy on providing salary supplements, an important tenet of the guidance is the need for mechanisms to prevent abuse in determining recipients and amounts to be provided and ensure financial integrity in the payment system. We found several potential weaknesses in the payroll and human resources systems on which USAID will rely to provide salary support through the Afghan government.

First, although the MOF has established an electronic payroll system, called the Verified Payroll Program, the system has not been completely implemented. USAID, therefore, may not be able to fully benefit from the stronger internal controls that an electronic payroll system provides. Electronic payroll has a number of internal controls such as photo identification that help mitigate the risk of "ghost employees." SIGAR reported in June 2010 that electronic fund transfer programs were credited with reducing payroll abuse in some police units.²⁴ Under the Verified Payroll Program, payroll records are computerized and government employees are registered, open personal bank accounts at commercial

²³ Participants at the London Conference on Afghanistan in January 2010 also agreed to increase the proportion of development aid delivered through the Afghan government to 50 percent in the next two years. The support would be conditional on the Afghan government's progress in further strengthening public financial management systems, reducing corruption, improving budget execution, and developing a financing strategy and government capacity towards that goal.

²⁴ SIGAR-10-11, *Actions Needed to Improve the Reliability of Afghan Security Force Assessments*, June 2010.

banks, and are paid electronically. The Verified Payroll Program has several internal controls for verifying employees' identities and ensuring that correct salary payments are made to the right bank accounts, such as employee registration and records certification.

Civil servants receiving donor-funded salary support provided through the Afghan government, such as the District Delivery Program, may not be paid electronically because implementation of the Verified Payroll Program is not complete.²⁵ As of April 2010, 56 percent of total government employees were paid electronically through personal bank accounts, but implementation has been less extensive in the provinces. The MOF's goal is to pay all government employees in Kabul electronically by March 2011, according to an MOF payroll official. Table 3 provides a breakdown of implementation of electronic payroll in the provinces where District Delivery Program salary support recipients would work.

Table 3: Implementation of Electronic Payroll in Provinces with District Delivery Program Key Districts, as of April 2010

Civil Servants Paid Electronically	Number of provinces	Name of provinces
0 %	2	Paktika, Zabul
Less than 25%	5	Baghdis, Baghlan, Khost, Ghazni, Helmand, Wardak
25-50%	4	Logar, Nangarhar, Kunar
More than 50%	7	Balkh, Paktia, Kandahar, Kunduz, Laghman, Herat, Kabul

Source: SIGAR analysis of MOF and USAID data.

Government employees who are not paid electronically through the Verified Payroll Program typically receive their wages in cash, which has significant internal control weaknesses. The MOF employs a bonded trustee to collect salaries for other staff and distributes salary payments in cash to employees at the line ministries. A senior MOF Internal Audit Department official noted that a cash payroll system had a number of risks, including collusion to commit fraud and a large number of ghost employees. In addition, the World Bank found in 2009 that Da Afghanistan Bank's processes were not reliable in ensuring proper identification of persons collecting cash for salaries. An INL financial manager said that INL had previously paid salaries in cash before Afghanistan had developed a banking system but stopped this practice because of its susceptibility to abuse and corruption.

Another concern in implementing Afghanistan's electronic payroll system is the capacity of the commercial banks to process salary payments for approximately 250,000 Afghan government employees. According to an MOF payroll official, the MOF uses four banks to electronically process payroll, including Kabul Bank, Standard Chartered Bank, Balkh Bank, and Azizi Bank. According to a U.S. Treasury Department official in Afghanistan, the recent bank crisis has not impacted Kabul Bank's ability to pay government salaries. The U.S. and Afghan governments recognized the importance of maintaining the integrity and timeliness of salary payments through Kabul Bank and are taking steps to protect the system should liquidity problems threaten the distribution of salary payments.²⁶

²⁵ Salary support recipients in the Office of the President are already paid electronically because electronic payment was a requirement under The Asia Foundation.

²⁶ SIGAR has initiated a review of U.S. and donor assistance for development of the banking sector and Afghan currency control systems.

Further, the Afghan government's payroll procedures cannot detect when government employees receive salary support from multiple donors. An important element of USAID's waived policy discouraging salary supplements is the restriction on paying salary supplements to government employees who receive supplements from other sources for the same activity. We heard several anecdotal reports from donor and Afghan officials that some salary support recipients are collecting salary supplements from multiple donors, including some who received two or three supplements in addition to their government salaries.²⁷ President Karzai has called such duplicative payments a form of corruption.

USAID requires that recipients in the Office of the President and the High Office of Oversight not receive additional salary payments from other donors. However, the Afghan government is unable to detect when recipients receive multiple salary payments because the MOF is not cross-checking donor salary support data and the Afghan government does not have a mechanism to verify donor salary support. Although U.S. and IARCSC officials believe the MOF is cross-referencing names of salary support recipients that donors provided following the January 2010 presidential decree, a senior MOF Budget Department official responsible for collecting and analyzing donor salary support data said, in April 2010, that they were not doing so. The official also stated that it would be difficult for the Afghan government to identify recipients who received multiple supplements because donors provided data that were inconsistent and incomplete and only three MOF officials had access to the data.²⁸ In addition, the Afghan government does not have a mechanism to track or verify salary payments made by donors. A senior official in the MOF Treasury Department, which is responsible for the Afghan government's payroll, stated that they have no visibility over donor assistance provided outside the Afghan government budget, including salary support.

Donors have also identified a number of weaknesses within the Afghan government's recruiting, hiring, and managing government employees. In its 2009 *Vulnerabilities to Corruption Assessments*, the World Bank identified weaknesses in the Afghan government's process for hiring civil servants, such as unclear job selection criteria, poor quality or lack of job descriptions, deliberately distorted selection criteria and requirements, systematic omission or underestimation of the basic technical requirements for positions, lack of analysis of candidates' technical expertise, lack of proper advertisement or late advertisement of positions, and lack of proper reference checks.²⁹ The World Bank also reported constant attempts to interfere with standard merit-based civil service appointment processes by members of the Afghan government, including the president's office, members of parliament, individual commanders, and influential political persons. One donor official stated that the process of determining which positions received salary support was vulnerable to "rent-seeking" because senior decision-makers appoint personnel to positions that receive salary support or decide which personnel receive donor salary support in exchange for money or favors. Furthermore, the World Bank found that staff could be paid even when not attending work and, if attending, when they may not actually be working because of lax management controls. In our review of donor salary support documents, we found several control deficiencies related to Afghan government certification and verification of time and attendance. In one case, the official responsible for certifying salary support recipients in an Afghan government office approved his own salary supplement. Finally, the World Bank reported that payroll preparation was not integrated with personnel files, which we confirmed through our testing of the Verified Payroll Plan in

²⁷ We were not able to corroborate these reports because we did not have access to other donors' salary support information.

²⁸ To encourage donors to provide sensitive salary support data, the MOF assured donors that the information would not be made available to anyone outside the MOF Budget Department.

²⁹ World Bank, *Fighting Corruption in Afghanistan: Summaries of Vulnerabilities to Corruption Assessments*, May 2009.

July 2010. To verify employment and salary records for salary support recipients, the MOF had to separately contact MOF financial controllers in the line ministries and the ministries' payroll managers because human resources and payroll systems are not integrated. The MOF only confirmed the employment status of salary support recipients in the Ministry of Education.

CONCLUSION

Since 2002, the Afghan government has depended on donor salary support to fill critical gaps in its capacity, yet donors may be forfeiting long-term capacity and fiscal sustainability for the short-term imperatives of standing up a functioning government in Afghanistan. Donor practices such as paying salaries that far exceed what the Afghan government can sustain and providing funding outside the government's planning and budgeting processes have had a negative impact on the local labor market, the development of an effective Afghan civil service, and the long-term development of Afghan government capacity. Competition among donors for qualified Afghans further contributes to these negative effects. As U.S. agencies provide increasingly more funding directly through the Afghan government, the Afghan government will assume greater responsibility for oversight of U.S. salary support funding. The weaknesses we identified in hiring, promoting, and paying Afghan recipients has put U.S. and other donors' salary support funding at greater risk of waste, misuse, or corruption. Without conducting an assessment of these systems or coordinating with donors, the United States will not be able to ensure that the necessary internal controls are in place to safeguard U.S. funding for salary support in the future or that donors' reforms will mitigate the negative effects of donor salary support.

RECOMMENDATIONS

SIGAR is making ten recommendations to improve transparency and accountability over U.S. funding for salary support and improve long-term sustainability and capacity of the Afghan government.

To mitigate the negative effects of donor salary support on long-term sustainability and capacity development, SIGAR recommends that the U.S. Ambassador coordinate with other international donors and the Afghan government through formal coordination mechanisms to collectively:

1. Establish principles, including reporting requirements, to guide how and under what conditions donors may provide salary support in a way that facilitates a transition to Afghan responsibility.
2. Define key terms such as salary support, salary supplement, technical advisor, and other related terms to facilitate information sharing and improve transparency over donor salary support.
3. Develop and utilize a standardized salary scale that is more closely aligned with Afghan government-approved scales for salaries and salary supplements.

To ensure U.S. salary support is strategically targeted toward prioritized needs and goals and is consistently applied across U.S. agencies, SIGAR recommends that the U.S. Ambassador:

4. Designate a representative to serve as a focal point for requests for salary support and monitor salary support provided by U.S. agencies.
5. Issue guidance that includes priorities, coordination mechanisms, and standardized salary ranges.

6. Identify the full extent of existing and planned U.S. salary support and determine whether that support is in line with this guidance and U.S. strategic goals and objectives.

To enhance safeguards and improve accountability over U.S. funding for salary support, SIGAR recommends that the U.S. Ambassador:

7. Require verification that positions funded by U.S. agencies are on the *tashkil* or are planned to be transferred onto the *tashkil*.
8. Conduct a risk assessment of the Afghan government payroll and human resources systems and procedures used to disburse salary support in order to determine weaknesses in the systems and institute conditions or requirements to mitigate those risks.
9. Work with the Ministry of Finance, in conjunction with other donors, to develop a mechanism to detect when employees receive multiple salary payments.
10. Require that recipients of U.S. salary support be paid electronically, if appropriate financial controls exist.

COMMENTS

U.S. Embassy Kabul provided written comments on a draft of this report, which are provided in appendix III. In its response, the embassy concurred with the report's findings and recommendations. We are pleased to note U.S. Embassy Kabul's intent to adopt a policy requiring that all contracts or assistance through U.S. agencies have a standard clause providing that any salaries paid to Afghan government employees or national staff fit within the standardized salary scale developed as a result of our recommendation.

For the first three recommendations, SIGAR recommended that the U.S. Ambassador coordinate with other international donors and the Afghan government to collectively establish guidance, define key terms, and develop a standardized pay scale with respect to donor-funded salary support. U.S. Embassy Kabul agreed with those recommendations and indicated that the Ambassador could coordinate with donors and advise the Afghan government, but that he could not control the actions of the other parties and, therefore, should only be held accountable for actions within his control. We acknowledge this concern and consequently urge that U.S. Embassy Kabul's efforts be made through formal coordination mechanisms. One such mechanism, which encourages donor coordination, would be the Joint Coordination and Management Board. However, the U.S. Embassy Kabul would need to consider the fact that several employees of the board (advisors and analysts) receive donor-funded salary support.

Also in its comments, U.S. Embassy Kabul mentioned two additional actions that it considers to be vital with regard to our recommendations—establishment of an annual market survey of cost-of-living and government affordability to determine and update the standardized salary scale, and a clearinghouse within the Afghan government that tracks all salary payments to government employees from donors but not donor-supported national staff who are private sector employees. We did not recommend these actions in our report because the scope of our work did not include the analysis necessary to support them. Nevertheless, we welcome these suggested actions and believe they could be steps in implementing the recommendations already made in the report. As we highlight in the report, U.S. agencies did not always know when an advisor had become an Afghan government employee. Therefore, it is important to verify whether a salary support recipient is in fact a government employee and receiving a government salary.

In addition, U.S. Embassy Kabul suggested that the report was focused on Afghan government employees and asked that the report more clearly define the term “technical advisor.” The scope of our audit was not limited to Afghan government employees, but encompassed any salary support recipient who performed a government function—be they a government employee or donor-hired technical advisor. However, the audit scope did exclude technical advisors that provide capacity-building technical assistance (i.e. guide and mentor Afghan government offices), as the embassy’s comments correctly noted. We modified our definition for technical advisors to more clearly state this distinction. Further, this comment illustrates the need for U.S. agencies to have common definitions of key terms related to salary support, as we have recommended.

USAID also provided technical comments on a draft of this report, which we have incorporated where appropriate. In its technical comments, USAID suggested several substantive changes to our recommendations. For example, USAID asked us to include in the first recommendation “requirements that all salary support be provided directly to the Afghan government and be reflected in the Afghan government budget.” We did not modify our recommendation because we did not want to prescribe either U.S. policy or specific principles that would govern U.S. and donor salary support. We strongly believe, however, that these two issues should be part of discussions to develop those principles. We feel the report’s analysis can help inform those discussions. In addition, USAID asked that we expand the tenth recommendation to “insist that the Afghan government develop a single version of all ministry *tashkils* to be reflected in the Human Resources Management Information System, which should serve as the basis for payroll.” Though we did not modify our recommendation, we note that having multiple versions of a ministry’s *tashkil* poses a weakness in the U.S. and Afghan governments’ ability to verify if donor-funded positions support a government office’s mission or strategic needs. Therefore, we reiterate our recommendation for an assessment of Afghan government human resources processes and systems, including the Human Resources Management Information System. Such an assessment is needed to identify such weaknesses and develop mechanisms and controls to mitigate those weaknesses.

APPENDIX I: SCOPE AND METHODOLOGY

This report discusses the results of the Office of the Special Inspector General for Afghanistan Reconstruction's review of U.S. salary support to the Afghan government. The audit encompassed salary support provided to Afghan government employees and technical advisors. We did not examine salary support provided to Afghan National Security Forces or through the Afghanistan Reconstruction Trust Fund and the Law and Order Trust Fund of Afghanistan. We also did not examine the use of international technical advisors to train and mentor Afghan government employees. We assessed (1) the extent of donor salary support provided to Afghan government employees and technical advisors since 2005, (2) the impact of donor salary support on long-term capacity and sustainability of the Afghan government, (3) U.S. agencies' implementation of salary support, and (4) the extent to which internal controls and accountability mechanisms are in place to safeguard U.S. funding for salary support.

To identify the extent of U.S. and donor salary support to the Afghan government, we relied on Ministry of Finance (MOF) estimates of salary support that donors reported in February 2010. We were unable to conduct a full data reliability assessment of the salary support information that donors provided to the MOF because we did not have access to the raw data. To determine the quality of the estimates, we interviewed officials responsible for collecting and assessing the data and officials responsible for submitting salary support data to the MOF. Additionally, we examined salary support data that U.S. Embassy Kabul collected in February 2010 to determine the monthly salary support U.S. agencies provided, the number of recipients of U.S. salary support, and Afghan government offices in which they worked. We excluded non-Afghan recipients by cross-referencing their nationalities from other data sources. To understand the extent to which U.S. Embassy Kabul and U.S. Agency for International Development (USAID) had visibility over the salary support it was providing, we reviewed internal memoranda and interviewed officials responsible for implementing U.S. salary support. We also compared data collected by U.S. Embassy Kabul with data reported to USAID leadership and the MOF. We were not able to determine the total amount of salary support data since 2005 because U.S. agencies did not collect this information until 2008 and we did not have access to other donors' records.

To evaluate the impact of donor salary support on long-term capacity development and sustainability, we reviewed documentation from and conducted interviews with officials from USAID, the Department of State's Bureau for International Narcotics and Law Enforcement (INL), U.S. Embassy Kabul's Public Affairs Section, the MOF, the Independent Administrative Reform and Civil Service Commission, the United Kingdom's Department for International Development, the United Nations Development Programme, and the World Bank. We compared pay scales that we obtained from the Afghan government and three of the four largest providers of salary support. We also examined U.S. salary support data and met with officials from Afghan government offices to determine the extent to which the Afghan government relied on donor salary support, particularly with respect to the rank and function of donor-funded positions. We met with responsible officials from U.S., Afghan, and donor agencies listed above to ascertain salary support practices and their long-term effects.

To examine how U.S. agencies implemented salary support, we obtained documentation from and interviewed officials from—USAID, INL, and the Public Affairs Section of the U.S. Embassy Kabul. We also met with a U.S. Forces – Afghanistan liaison to U.S. Embassy Kabul, who was involved in discussions on U.S. salary support. We reviewed memoranda of understanding, implementation letters, contracting documents, and cooperative agreements. We identified the different types of funding mechanisms and various pay scales that U.S. agencies were using or had used and compared and contrasted these various approaches. To determine the extent to which U.S. agencies had strategic guidance on

implementing salary support, we reviewed USAID policy guidance and other memoranda explaining or authorizing USAID's salary support in Afghanistan and met with INL and Public Affairs Section officials to determine if State or U.S. Embassy Kabul has a policy on salary support.

To assess the extent to which internal controls and accountability mechanisms are in place to safeguard U.S. salary support, we identified internal controls and accountability mechanisms that were used to implement U.S. salary support by interviewing officials from the four largest providers of salary support, Afghan government offices that receive or implement donor salary support, and U.S. implementing partners. We asked each of them to identify how they determined which positions would receive salary support recipients, how much recipients would be paid, how salary payments were distributed, and how employees' identification and time and attendance were verified. We utilized information from these interviews and our review of USAID and World Bank assessments of the MOF and line ministries' capabilities. Though we did not conduct our own internal controls assessment, we identified internal controls weaknesses in the processes and systems the Afghan government is using or would use in implementing U.S. salary support, based on applicable international internal controls standards. We also tested whether internal controls mechanisms were implemented a way that would provide reasonable assurance that salary support funds were used as intended by requesting the MOF Treasury Department Payroll Unit verify the name, position, office, and monthly salary of a randomly selected group of U.S. salary support recipients. The MOF only confirmed the employment status of salary support recipients in the Ministry of Education.

This report is part of a series of audits addressing U.S. efforts to build Afghan capacity to strengthen accountability and prevent corruption. We conducted work from January to August 2010 in Kabul, Afghanistan, and Washington, D.C., in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This performance audit was conducted by SIGAR under the authority of Public Law No. 110-181, and the Inspector General Act of 1978, as amended.

APPENDIX II: U.S. PROGRAMS THAT PROVIDE SALARY SUPPORT

The U.S. Agency for International Development (USAID), the State Department's Bureau for International Narcotics and Law Enforcement Affairs (INL), and U.S. Embassy Kabul Public Affairs Section's programs that have a significant salary support component include:

Capacity Development Program

The Capacity Development Program was USAID's largest salary support program in terms of funding and recipients.³⁰ The program was intended to strengthen Afghan government institutions for good governance by providing near-term direct capacity building of targeted public sector institutions such that they are capable of implementing the Afghan National Development Strategy. The 5-year, \$220 million contract to implement the program was awarded to Bearing Point in 2007. Deloitte took over the contract after Bearing Point declared bankruptcy in 2009.³¹ Deloitte paid the full salaries of Afghan independent contract employees to serve as provincial program managers, internal auditors, infrastructure engineers, and security officers in the Ministry of Education. Deloitte officials estimated salary support accounted for \$13 million. Recipients were considered Deloitte employees. Salary support, as a component of the program, ended in December 2009.

Support to the Center of Government

USAID's Support to the Center of Government program provided salary support to recipients in the Office of the President, which includes the Chief of Staff's office, the Office of Administrative Affairs, the National Security Council, the High Office of Oversight, and the Office of the Minister of State for Parliamentary Affairs. The program, implemented by The Asia Foundation through a cooperative agreement with USAID signed in 2003, aimed to consolidate the development of democratic political processes and respond to strategic needs for stable governance. Salary support was added to the program as early as 2005 to build the capacity of the Office of the President to (1) operate more efficiently and effectively; (2) analyze, plan, set, and monitor policy; (3) increase the professional capacity of the personnel within the Office of the President to manage resources and deliver services; and, (4) respond to unanticipated needs. USAID provided \$6.6 million for salary supplements to government employees in the Office of the President. The Asia Foundation also paid the full salaries of technical advisors they hired to work in the High Office of Oversight. USAID support to program activities, including salary support, ended in January 2010, with the exception of support to the High Office of Oversight, which ended in March 2010. USAID subsequently agreed to continue to provide salary support to the Chief of Staff's office and the High Office of Oversight until March 2011 through a grant to the Afghan government.

³⁰ The Capacity Development Program was originally called Afghans Building Capacity and was renamed the Afghan Civil Service Support Program in March 2010. A modification refined the contract's goal to enabling the IARCSC to build capacity and reform the main service delivery ministries of the Afghan government both at the central (Kabul) and provincial levels.

³¹ For the purposes of the report, we refer to Deloitte as the implementing partner, though some of the statements may also apply to Bearing Point.

District Delivery Program

In April 2010, USAID signed a memorandum of understanding with the Afghan government establishing the District Delivery Program, which is designed to establish or improve the presence of the Afghan government in recently secured districts. The 2-year, \$40 million program is expected to enable the Afghan government to identify, hire, and deploy civil servants to fill vacancies across key districts and to facilitate the provision of basic services in health, education, agriculture, justice, infrastructure in each district. USAID will provide salary support, through a grant to the MOF, to adjust civil servants' salaries in line with pay and grade reform and pay hardship allowances.³² Salary support costs under this program are expected to be \$36 million, or 90 percent of the program funding. Afghan government institutions eligible to receive salary support include the Independent Directorate for Local Governance; the Ministries of Education, Justice, Public Health, Rural Rehabilitation and Development, and Agriculture, Irrigation and Livestock; the Attorney General's Office; and the Supreme Court.

Good Performers Initiative

Launched in 2007, the Good Performers Initiative provides development assistance to poppy-free or nearly poppy-free provinces to help build infrastructure and employ local citizens. INL provides salary support to the Good Performers Initiative Directorate in the Ministry of Counter-Narcotics.

Counter-Narcotics Advisory Team

The Counter-Narcotics Advisory Team program, previously known as the Poppy Eradication Program, aims to reduce poppy cultivation, production, and abuse at the provincial level. Primarily Afghan-run, teams work with the Ministry of Counter-Narcotics to support governor-led counter-narcotics efforts in Badakshan, Balkh, Farah, Helmand, Kandahar, and Uruzgan. INL has paid salary supplements to provincial team members and Kabul staff since 2007. Salary support will expire in March 2011.

Justice Sector Support Program and Corrections System Support Program

The Justice Sector Support Program aims to strengthen the capacity of criminal justice system institutions and professionals. The Corrections Sector Support Program aims to develop Afghan prisons capable of housing and rehabilitating prisoners respectively.

Government Media Information Center

Since 2008, the U.S. government has provided salary support to the Government Media Information Center—first through USAID then through the Public Affairs Section. The Government Media Information Center is responsible for overseeing strategic communications between the Afghan government, Afghan citizens, and the international community. It is being merged with the Office of the Presidential Spokesman.

³² Through pay and grade reform, the Afghan government is implementing a new pay and grade structure with higher salaries, merit-based recruitment, and performance-based incentives.

APPENDIX III: COMMENTS FROM U.S. EMBASSY KABUL



Embassy of the United States of America
Kabul, Afghanistan

UNCLASSIFIED
DECISION MEMORANDUM

October 24, 2010

TO: Ambassador Karl W. Eikenberry *24 Oct 10*

THROUGH: Deputy Ambassador E. Anthony Wayne *EW 12/9/0*

FROM: CDDEA - Ambassador William E. Todd *WT*

SUBJECT: Response to Draft SIGAR Report, "Actions Needed to Mitigate Inconsistencies and Lack of Safeguards over U.S. Salary Support to Afghan Government Employees and Technical Advisors"

CONTEXT

SIGAR has prepared a draft audit report titled, "Actions Needed to Mitigate Inconsistencies and Lack of Safeguards over U.S. Salary Support to Afghan Government Employees and Technical Advisors." SIGAR requested that the Embassy's technical comments be incorporated in the report as track changes. Tab 1 is our response to SIGAR's proposed recommendations.

RECOMMENDATION

That you approve the response to SIGAR at Tab 1.

Approve *WT* Disapprove _____ Let's discuss _____

24 Oct 10

Attachments:

Tab 1 - Post Response to Draft SIGAR Audit on Salary Supplements

Tab 2 - Draft SIGAR Report on U.S. Salary Support to Afghan Government Employees with Technical Comments

Response to the Office of the Special Inspector General for Afghanistan Reconstruction's (SIGAR) draft report on: "Actions Needed to Mitigate Inconsistencies in and Lack of Safeguards over U.S. Salary Support to Afghan Government Employees and Technical Advisors," October 2010.

General Comment on the SIGAR Draft Report

The SIGAR report should define the term, "technical advisor." Since the report's focus is on Afghan Government (GIROA) employees, it would appear that the "technical advisors" as cited in the report refers only to technical advisors who are GIROA employees. This would exclude, for example, individuals hired by USG agencies (embeds) to provide technical capacity building assistance, because they are not GIROA employees but instead are "seconded employees" of the hiring agency. Although it is conceded that such agency hires may be said to significantly skew the salary issue, as the salaries of these employees greatly exceed Afghan Government pay schedules, inclusion of such technical advisors would significantly broaden the scope of the audit. It is noted that problems occur when such contracted "technical advisors" are transferred to GIROA "taskeels" and naturally expect the same (or higher) salaries. The USG, foreign and international organizations must remain cognizant of this possible occurrence when considering salary supplements to GIROA taskeel employees.

Embassy Kabul's Response to Specific SIGAR Draft Report Recommendations

Recommendations 1 - 3:

To mitigate the effects of donor competition on long-term sustainability and capacity development, SIGAR recommends that the U.S. Ambassador coordinate with other donors and the Afghan government to, collectively:

- 1. Establish principles, including reporting requirements, to guide how and under what conditions donors should or should not provide salary support in a way that facilitates a transition to Afghan responsibility, including defining key terms and reporting requirements.*
- 2. Define key terms such as salary support, salary supplement, and technical advisor to facilitate information sharing and improve transparency over donor salary support.*
- 3. Develop and utilize a standardized salary scale that is more closely aligned with Afghan government scales for salaries and salary supplements.*

Embassy comment: We agree with the above recommendations with suggested changes in the language (as incorporated into the draft report) to clarify terms. However, we note that the three items above are assigned to three separate parties to complete: the U.S. Ambassador, the international donor/s, and the Afghan government. The U.S. Ambassador can coordinate with other donors and advise, but not control, the other two parties, and therefore should only be held accountable for the actions within his control.

We request that SIGAR consider the inclusion of the following recommendation which we believe is vital in developing a standardized salary scale that is market-based and reflective of current cost-of-living conditions in Afghanistan:

“Discuss with donors a yearly market survey, based upon cost-of-living considerations and affordability to GIROA, to determine and update the standardized salary scale.”

Recommendations 4 - 6:

To ensure U.S. salary support is strategically targeted toward prioritized needs and goals and is consistently applied across U.S. agencies, SIGAR recommends that the U.S. Ambassador:

- 4. Designate a representative to monitor and oversee salary support provided by U.S. agencies.*
- 5. Issue guidance that includes priorities, coordination mechanisms, and salary ranges.*
- 6. Identify the full extent of existing and planned U.S. salary support and determine whether that support is in line with this guidance and U.S. strategic goals and objectives.*

Embassy comment: We agree with the above recommendations and consistent with recommendation #6 Post intends to adopt the following policy:

“Require that all contracts or assistance through U.S. agencies have a standard clause mandating that any salaries paid to Afghan government employees or national staff fit within the standardized salary scale developed as a result of Recommendation 3 above.

Such clause could serve as a performance benchmark that a contractor must achieve or a condition precedent that the GIROA must satisfy before disbursement of funds is made by U.S. Government Agencies.

Recommendations 7 - 10:

To enhance safeguards and improve accountability over U.S. funding for salary support, SIGAR recommends that the U.S. Ambassador:

- 7. Require verification that positions funded by U.S. agencies are on the tashkil.*
- 8. Conduct a risk assessment of the payroll and human resources systems and procedures used to disburse salary support in order to determine weaknesses in the systems and institute conditions or requirements to mitigate those risks.*
- 9. Work with the Ministry of Finance, in conjunction with other donors, to develop a mechanism to detect when employees receive multiple salary payments.*

10. Require that recipients of U.S. salary support be paid electronically, if appropriate financial controls exist.

Embassy comment: We agree with the above recommendations with suggested changes in the language (as incorporated into the draft report) to clarify terms and/or expound on the actions required in it. We also request that SIGAR consider the following recommendation that we believe would be an effective way of maintaining centralized information on donor-funded salary payments to government employees, thus precluding duplicate funding for individual positions:

“Support the idea of a clearinghouse within GIRoA that tracks all salary payments to government employees by donors, but withhold support for a GIRoA clearinghouse for donor-supported national staff who are private sector employees.”

(This report was conducted under the audit project code SIGAR-020A).

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